STATEMENT OF THE HONORABLE BOB BERGLAND
SECRETARY OF AGRICULTURE
BEFORE THE COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES
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Mr. Chairman, I appreciate the opportunity to meet with your distinguished Committee today to discuss the present agricultural situation in the United States and to join with you in looking for ways to make it better.

Some farmers are in serious financial trouble. Many farmers have cash flow problems.

You do not need to read USDA figures and estimates of farm costs and farm prices to know that many farmers are in serious financial trouble this year.

You know that first hand. You have been back to your home districts, meeting with farmers and ranchers. You have met farmers in Washington -- from your own districts and from other parts of the nation in recent days.

For my part, during the past year, I have been in 26 states and have met with farmers and farm leaders on at least 62 separate occasions. I have had countless more meetings here in Washington.

Nearly every one of those meetings was productive. All of them have been instructive.

But all of us have found at these meetings that the very real financial pressures on some farmers have sometimes overwhelmed the equally real need for reasonable discussion.

Meeting with you today gives all of us a chance to discuss the problem in an atmosphere of reason and commonality.

A year ago, Mr. Chairman, when you and your colleagues and I started work on a new Food and Agriculture Act, we had a pretty good idea what was in store for American agriculture.

All the signs were there.
The farm roller coaster was well on its way.
Grain surpluses were piling up.
Grain prices were skidding.
Inflation was rocketing farm costs to new records.
More farmers were deeply in debt.
Credit was tightening.

It was with this knowledge that the Food and Agriculture Act of 1977 was put together -- after months of tough, arduous work, much negotiation, and adjustment to the political realities of legitimate compromise.

While none of us, individually, was completely satisfied with every provision of the new program -- the final result was a good, sound bill. It still is.

It passed the Congress. The President signed it. Most farm organizations supported it, in the main. It had the support of consumers, which is vital.

When you stop to analyze the situation a year ago, the Food and Agriculture Act of 1977 was a better and more constructive, comprehensive bill than most of us had a right to expect -- considering the complexity of the problems we were facing, many of which we inherited from previous years.

In the Act we broke some new ground for agriculture and vastly improved many of the previous programs.

We got rid of the old historical acreage allotments -- and threw them in the ash can where they belonged years ago.

We raised target levels on basic crops to be more in line with the realities of production costs.

We established realistic loan programs and facilitated the establishment of a farmer-owned, farmer-controlled grain reserve program.

Though these two provisions were the subject of much debate, negotiation and controversy (and they still are) we arrived at realistic figures that were economically sound and fiscally acceptable as far as budget constraints were concerned.

In addition, we improved and honed the food stamp program -- we expanded the P.L. 480 program more in line with international and domestic needs. We added new authorities to expand and develop our farm export program. We re-geared our whole research programs and policies. We put new teeth in the rural development program.

All those things are in the Food and Agriculture Act. But the thing to remember is this: The Act of 1977 has only been in operation four months. It has yet to be tested. Only the winter wheat crop has been planted -- and it is 13 percent smaller than the previous year. All the rest of 1978 production is only a projection. We do not know what the weather will be like. And weather will decide more for all of American agriculture than anything that you and I have already done or can do.

Those involved in food and farm policymaking -- whether in the Congress, the Executive Branch or the private sector -- are reasonable, thoughtful and concerned individuals.

Together, we bear a heavy responsibility -- that of maintaining our unsurpassed food production system and preserving and strengthening our system of agriculture -- so that our family farmers can stay in business and maintain that production system with some semblance of economic security.

It was precisely to that end that this Congress passed, and the President signed into law, the Food and Agriculture Act of 1977.

Mr. Chairman, all of us have heard many voices which ask us to toss aside the 1977 Act, even before its effects can be tested.

Yet, on the other hand, there are those voices in agriculture which want to give the 1977 Act a chance to work -- to see whether its programs will indeed achieve our goals of increasing farm income and bringing some sort of businesslike predictability to this boom-and-bust business of farming.

I, for one, want to see it work.

I am committed to making it work.

There are two basic, inescapable realities in running a business under our economic system:

One is profit.

The other is supply and demand.

Any business must show a reasonable return on investment, labor and management, to stay in business. There must be a margin of profit over and above all the combined production costs.

Over the long haul, there must be a balance between production of any commodity and the demand in the market for this commodity.

Since farmers are businessmen, they must operate under these two hard realities -- whether they like it or not.

Today, those two realities in agriculture are not being met by many farmers -- particularly by wheat and feed grain producers.

As of January 1st of this year, the nation had 54.2 million metric tons of wheat and 169 million metric tons of feed grains in its inventory.

The economic impact on farmers is inevitable: low wheat and feed grain prices.

The very diversity and numbers of producers of farm commodities -- plus the uncertainties of weather -- make it impossible for farmers to gear their combined production to the demands of the market place, on a one-on-one basis.

This remains true as long as we have our present system of family farm agriculture.

There are a number of short-and long-range alternatives to this traditional dilemma in agriculture:

One would be to replace our farm family system of agriculture with a few large-scale operators who can and will set their production to what they think the market can take and, at the same time, be in a position to demand huge profits. This would be dangerous and, to me, unthinkable.

One alternative before us is a completely government-regulated program of controls for all farm commodities. This would mean controls on every individual producer and the establishment of a fully regulated marketing system for every commodity. This alternative means, esentially, that agriculture would become a regulated public utility. I doubt that either farmers or consumers would accept this alternative.

Another would be expanded use of farmer marketing cooperatives for domestic and export sales. But it would require a high degree of cooperative discipline and extensive participation on the part of farmers, which they have thus far not shown. It remains a viable alternative which farmers should carefully consider and is a long-range possibility.

Or, we could adopt a program of voluntary production controls and commodity reserves with sufficient incentives for effective participation by most farmers, with a minimum of government regulation but with adequate incentive assistance, to make it work.

We now have such a program.

The Food and Agriculture Act of 1977 provides the machinery for such a voluntary program.

It comes in two related parts: to strengthen market prices with loans and target prices to prevent economic disaster; and two, set asides to bring supplies in line with requirements.

The second part is the reserve program.

Broadly speaking, the reserve program has two purposes: to remove price depressing supplies from the market in times of excess; and to provide supplies at reasonable prices in times of shortages. More specifically, an adequate program would help to do the following:

-- Reassure our trading partners of a dependable source of supplies.

-- Encourage the further growth of overseas markets for U.S. farm goods.

-- Remove erratic moves in food prices and combat inflation.

-- Strengthen farm prices when supplies are excessive.

-- Protect livestock producers from extreme fluctuations in feed costs.

-- Insure sufficient supplies for food aid abroad.

More specifically, this is how the reserve was set-up and how it operates:

The Administration announced in April the formation of a small -- 8 million metric ton -- food grain reserve from 1976-77 wheat and rice. The 1977 Act later mandated this food grain reserve and also encouraged a feed grain reserve. In late August, the enlargement of the reserve to 30-35 million tons of food and feed grains was announced.

The reserves are to be owned by farmers to the extent possible. The rules for the reserve's operation are quite explicit, and the grain cannot reenter the market until the market price has reached the release price. Grain enters the reserve at the loan level and farmers may sell at the release level -- 140 percent of the loan for wheat and 125 percent of the loan for feed grains. Or they may wait until prices hit 175 percent the loan level for wheat and 140 percent for feed grains, at which time I will ask them to repay their loans.

The message to buyers is clear: There's no cheap grain on the market, and if anyone wants to buy grain -- they're going to have to pay farmers a fair price to get it.

While this method of price adjustment satisfies the concerns of consumer advocates and helps meet our obligations in meeting world hunger, it also gets better prices for farmers.

I look on the reserve as a marketing tool. The government helps farmers wait it out for a good price and it also helps by paying storage. The program rate helps farmers maintain a cash flow while they're waiting out the market.

I realize many farmers would like higher loan rates and higher target prices. There are problems with that.

An obvious one is that if loans approached anything like 100 percent of the old parity formula, our export markets would be in serious jeopardy. We would, in effect, give these markets as a gift to our competitors.

Our reserves program will operate as a shock absorber. It will take commodities off the market when supplies are plentiful in the world and return them in an orderly, well-known way when shortages caused by the weather do occur.

There is a complementary system between reserves and the marketplace. Commodity prices can move within a basic corridor, and they should. But, reserves deal effectively with market changes that are abnormal.

Above all, reserves enable the United States to be competitive -- to continue to be a dependable supplier.

One of the most important benefits of the reserve programs authorized by the Food and Agriculture Act of 1977, I submit, is that they offer American farmers a far better insurance policy against export embargoes than anyone else could conceivably provide.

America's farmers today get about 25 percent of their cash receipts from exports. Fiscal 1977 exports have been valued at $24 billion -- $1 billion more than Fiscal 1976, and nearly three times the value in 1970. The United States now supplies about 40 percent of the world's wheat exports, nearly 60 percent of the world's coarse grain exports, and half of the world's soybean exports. And, during the 1970's, the United States has also provided almost 60 percent of the world's food aid.

However, our continued dominance as a major world exporter is not a certainty. It can be, only if we insure our reliability as a supplier during good and bad crop years. And developments between 1972 and 1975 should confirm this. There should be absolutely no question about what happened in the absence of a formal reserve policy.

Our dependability -- our reliability -- did suffer. And, as a consequence, some traditional trading partners sought other sources of supplies.

In the wake of the 1972 Soviet grain sales, the Administration resorted to a series of ad hoc export controls to stave off shortages at home -- we had soybean embargoes in 1973, and moratoriums on Russian and Polish grain sales in 1975.

Japan, one of our most faithful trading partners, was especially alarmed by the restrictions on soybean shipments and made serious efforts to find alternative sources. The moratoriums with Russia and Poland strained the trading relationships we were trying to develop with those two nations.

Livestock, dairy and poultry farmers -- all of whom rely on steady supplies of reasonably priced grain -- also felt the pinch created by the lack of reserves. Rising feed costs pushed many of them to the wall. In the U.S., 1973 meat consumption figures showed a sharp per capita decline, thanks largely to the high production costs that were reflected in retail prices, and many operators went bankrupt.

Grain fed to animals fell like a rock after our bad 1974 corn crop, and we still use much less grain than back in the early 1970's. If we used as much now as then there would be a world feed grain shortage.

American consumers, for their part, discovered that inadequate reserves left them at the mercy of a capricious marketplace. Skyrocketing food costs became a major domestic issue and contributed substantially to the double digit inflation that plagued the country during the early seventies.

Although commodity prices at the farm make some 30 percent of the consumer's food bill, increases in farm prices travel down the line, snow-balling as they go. Once they have reached the retail level, they seldom disappear, even though commodity prices eventually fall. The result is ratchet inflation of the sort we saw a few years ago.

The market instability that characterized the years from 1972 to 1975 benefitted no one: not the United States, not our foreign trading partners, not the hungry and starving around the world who paid the heaviest price of all. And certainly not those farmers who are suffering from the bust that followed the boom.

Unfortunately, there is no certainty that the events of those years will not repeat themselves. Unless we take adequate precautions, we can be nearly certain that at some point it will occur again.

Mr. Chairman, the Congress has given us the authority to take those precautions -- and we intend to use them to the best of our ability.

Not every farmer will stand up and applaud the course we have chosen. But I submit that not every farmer would stand to applaud us if we chose the option of legislating full parity.

This course is not a quick-fix. It will not make every farmer solvent overnight.

The best course is one of steady and sustained growth. That is the way to restore to American agriculture the long-term viability and profitability that, in the final analysis, is the goal that all us are seeking.

With that, Mr. Chairman, I shall be pleased to entertain your questions.

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